HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saguenay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

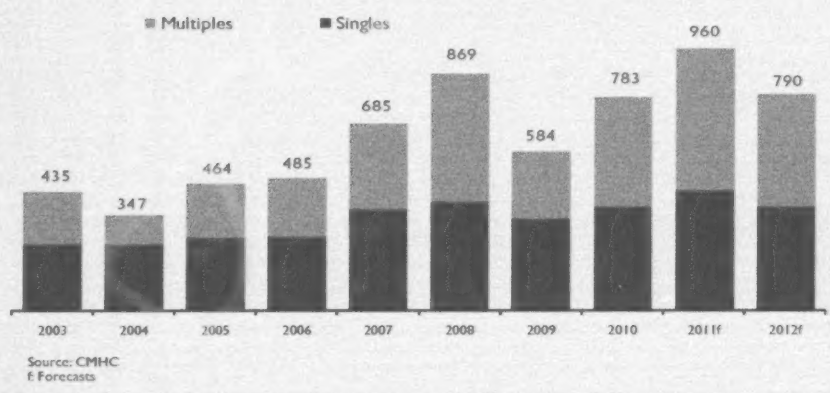
Date Released: Spring 2011

Residential construction to peak in 2011*

Residential construction will post intense activity in 2011 in the Saguenay census metropolitan area (CMA). It is estimated that 960 housing units will be started, for an increase of more than 20 per cent over 2010. In 2012, despite a slowdown, the level will remain relatively high, as close to 800 new housing units will get under way. This vigorous pace in relation to recent years is supported by economic fundamentals that remain favourable

Figure 1

Strong Residential Construction in 2011
Housing Starts - Saguenay Census Metropolitan Area



Source: CMHC
f: Forecasts

* The forecasts provided in this document are based on the information available on April 28, 2011.

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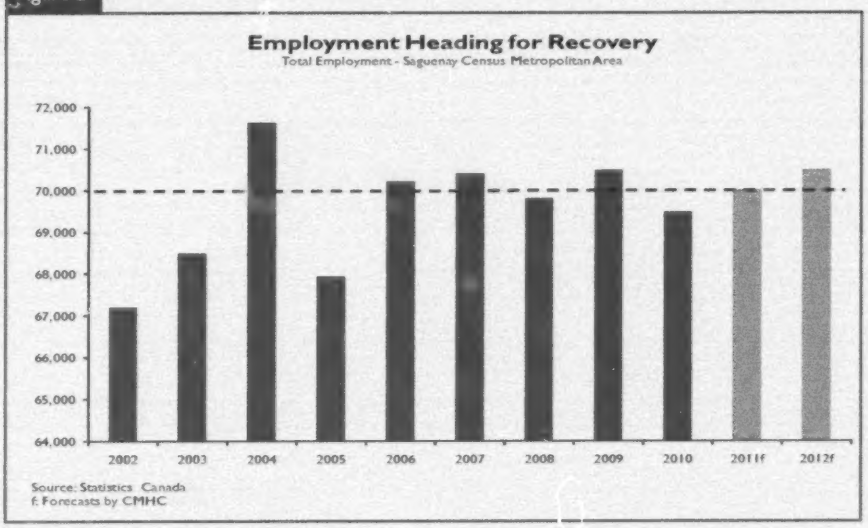
overall. On the resale market, given a weaker demand and a reduced supply of more affordable properties, transactions are expected to fall in 2011 and then stay relatively stable in 2012. Market conditions should be less tight, and price increases should be smaller. Lastly, the addition of many rental units will cause the vacancy rate to edge up from now until 2012.

Figure 2



Economic fundamentals: still favourable

Employment to recover

Since 2006, the employment level in the Saguenay CMA has hovered around 70,000 persons. The area registered a decrease of 1.4 per cent in employment between 2009 and 2010, mainly on account of the difficulties in the manufacturing sector. The strength of the Canadian dollar, the slow recovery of the demand from the United States and the restructuring of the forest industries are posing challenges for the area. Over the 2011-2012 horizon, we anticipate that the economic recovery will help limit the job losses in the manufacturing sector. In addition, continued public and private investments will increase jobs in the construction sector. As well, job creation in the service sector will also fuel the overall growth in employment. We therefore expect employment to grow by nearly 1 per cent in 2011 and 2012. The levels will be close to those observed in recent years, at about 70,000 persons.

Mortgage Rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Youth employment

Even though employment remained relatively stable, labour market conditions stayed favourable for young people in the area. For one thing, the employment rate[1] among people aged from 25 to 44 years reached an all-time high of more than 80 per cent, and the unemployment rate for this age group hit a low of 6.7 per cent in 2010. For another, the employment rate for those aged from 15 to 24 years is close to 60 per cent, which is a high level compared to recent years[2].

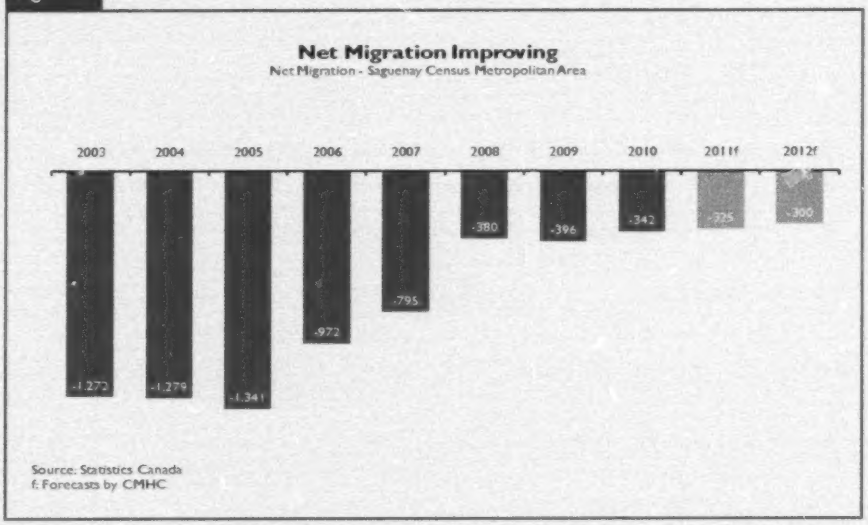
These labour market conditions are helping to support housing demand

[1] Percentage of the population with jobs.

[2] Source: Statistic Canada (CANSIM), calculations by CMHC.

and increase the area's ability to retain young people. Although still negative, net migration has been increasing for the last few years, thanks to the fact that fewer people have been leaving the area. However, this phenomenon may not be sufficient to counter the gradual slowdown in household formation.

Figure 3



Housing demand to decline progressively over the longer term

Over our forecast horizon (2011-2012), economic and financing conditions will continue to support housing demand relatively well. In the longer term, however, our demographic projections are pointing to a gradual slowdown in household formation. The addition of fewer new households will progressively weaken demand for new housing. Still, the changing housing needs of baby boomers will fuel demand for certain housing types.

The aging of the imposing generation of baby boomers is steadily driving up the number of households aged 55 years or older, and this is changing the housing needs in the Saguenay area. For one thing, separations and deaths are tending to increase the number of one-person households. Also, older households are generally better off financially and have more experience on the real estate market. The housing market will therefore have to meet the specific needs of these households.

As well, people aged 75 years or older need specialized services. Unless they receive home services, they can opt for retirement homes. However, we are currently in a period where the growth in this age group is modest, on account of the low birth rate that prevailed in the 1930s. It is only in 2020 that the first baby boomers will enter this age group. Consequently, demand for retirement housing should be expected to grow less significantly over the coming years.

New home market: significant activity in signt

Residential construction will be very active in 2011 and maintain a good pace, overall, in 2012. There should be 960 housing starts in 2011 and close to 800 more in 2012, compared to an annual average of 680 for the last five years. Several factors will work together to increase the potential for construction in the area in 2011, as employment will recover, mortgage interest rates will stay low, net migration will climb and rental market conditions will be tight[3]. In 2012, activity will run out of steam, since interest rates will be on the rise, household formation will slow down and rental market conditions will ease.

Freehold and condominium housing

As was previously mentioned, the economic and demographic conditions have been favourable to single-detached home building for the last few years. In addition, rising prices for existing homes will cause part of the demand to spill over onto the new home market, which will stimulate construction. Consequently, single-detached housing starts will remain at high levels in 2011 and 2012. After a significant volume of construction in 2011, with 440 new units, a drop is expected for 2012. With a total of 380 starts, however, the pace will remain comparable to that of the last four years. Over the coming years, the

[3] In addition, on account of a later compilation of starts, some of the new units started during the last months of 2010 were enumerated in January 2011, resulting in a spike in activity in 2011.

area will see a gradual slowdown in household formation, which will weigh down on residential construction. In the shorter term, the decline will result from the progressive rise in mortgage interest rates, a decrease in purchasing power and a less significant increase in prices on the existing home market.

Semi-detached, row and duplex home building will remain stable in 2011 and 2012, with 90 new units expected in each of these two years, and the same will also hold true for condominium construction, which should reach some 30 starts in each of 2011 and 2012. These housing types will resist the decrease in activity anticipated for 2012 on the market, thanks to the popularity of more affordable homes among buyers and a continued demand for smaller dwellings.

Rental housing

Overall, some 400 new rental housing units are expected in 2011 and then close to 300 more in 2012. Rental housing construction is being mainly fuelled by the low vacancy rates and the rather robust demand on the rental market.

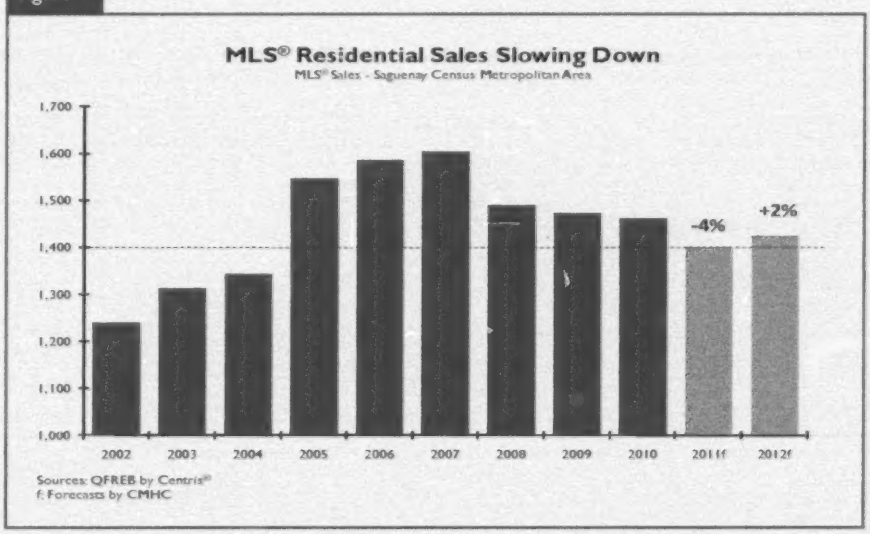
The overall rental housing vacancy rate decreased from 5.3 per cent in 2004 to 1.6 per cent in 2008, as a result of a strong demand, supported by the increase in net migration and the aging of the population, and the addition of few new housing units. Since 2009, rental housing construction has regained some strength. The increase in supply will intensify in 2011, with more than 400 additional units, including retirement, private and social housing units. In 2012, the easing of the market should cool the ardour of builders, as nearly 300 new rental housing units are expected.

Resale market: pace to slow down

Existing home sales in the Saguenay area are having difficulty in returning to the peak reached in 2007, when 1,603 MLS® sales had been registered[4]. While the decrease in interest rates and the anticipation of an imminent increase stimulated housing demand in late 2009 and early 2010, the results for 2010 show that the volume of transactions remained relatively stable. We expect that activity will decrease in 2011 and then stabilize in 2012. For one thing, the end of the earlier-than-planned purchases and the upward trend in mortgage interest rates are weakening demand. For another, the rising prices in recent years have reduced the supply of affordable properties, which will further limit activity in 2011. In short, we anticipate some 1,400 MLS® transactions, for a decrease of 4 per cent from the 1,460 sales recorded in 2010[5]. Lastly, in 2012, the level will stay rather stable, with a small gain of close to 2 per cent.

With the price hikes in recent years[6], single-family homes selling for less than $200,000 are increasingly scarce in the Saguenay CMA. In 2008, 70 per cent of the available single-family houses[7] were in this price range. This share reached 67 per cent in 2009 and then fell rapidly to 56 per cent in 2010. While the growth in the incomes[8] and wealth of households may help them partially offset the increase in home prices on the

Figure 4



[4] Source: QFREB by Centris®.

[5] Idem.

[6] Source : QFREB by Centris®. The average annual growth in the price of residential properties was close to 10 per cent between 2006 and 2010 (calculations by CMHC).

[7] Source: QFREB by Centris®, Le Baromètre MLS® du marché résidentiel.

[8] According to the Institut de la statistique du Québec, the income of workers aged from 25 to 64 years in the Saguenay area grew at an average annual rate of 2.9 per cent from 2005 to 2009.

market, this more marked drop in supply in 2010 and early 2011 will limit transactions, since most single-family home sales remain in this price range[9].

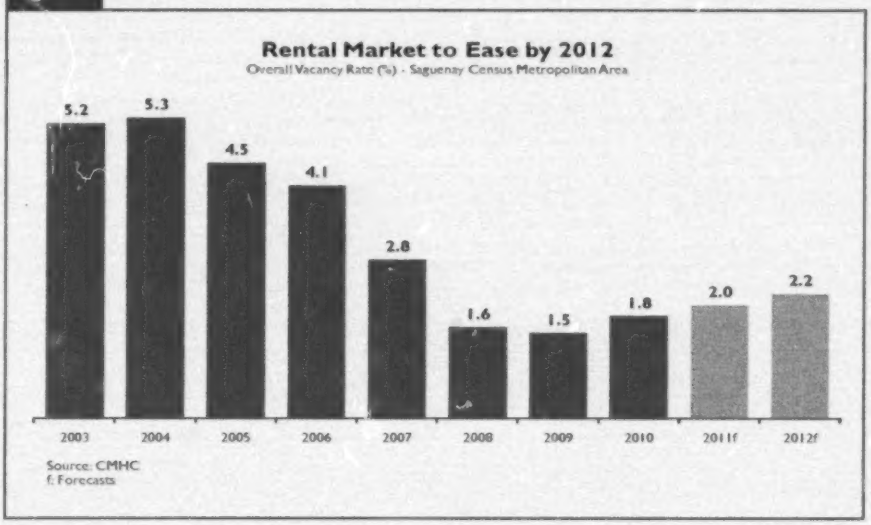
It should also be noted that the increase in property prices on the resale market could prompt some buyers to consider purchasing a new home, which would limit MLS® sales and stimulate residential construction. While single-family home transactions are increasingly occurring in price ranges above $200,000, with the share of such sales having risen from 13 per cent in 2008 to 21 per cent in 2010[10], market conditions in these ranges are much less tight, suggesting a broader choice of options for buyers.

With fewer transactions in 2011 and a progressive increase in the overall supply, the market will be less tight, and this will limit the growth in prices. The average price of residential properties will rise from $168,257 in 2010[11] to $179,000 in 2011 (+6.4 per cent) and then reach $186,000 in 2012 (+3.9 per cent over 2011). The market will continue to favour sellers (seller-to-buyer ratio below 8 to 1), but the less tight market conditions and additional employment gains will contribute to a slight rise in transactions, which should attain 1,425 sales in 2012.

Rental market: conditions to ease by 2012

Demand for traditional rental housing will be supported by the conditions on the job market, the increase in net migration and the aging of the population. Even though new units will be added, no major changes are expected in the vacancy rate. The easing of the market will be felt more significantly next year, with the vacancy rate reaching 2.2 per cent. And he average rent for two-bedroom apartments will increase by about 2 per cent per year over the same period and reach $555 in October 2012.

Figure 5



[9] According to the QFREB, in 2008, 87 per cent of single-family houses absorbed were priced below $200,000; this share dropped to 83 per cent in 2009, and then to 79 per cent in 2010.

[10] Source : QFREB by Centris®.

[11] Idem.

Forecast Summary Saguenay CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	1,488	1,472	1,460	1,400	-4.1	1,425	1.8
MLS® Active Listings	654	746	712	715	0.4	725	1.4
MLS® Average Price ($)	144,213	151,911	168,257	179,000	6.4	186,000	3.9
New Home Market							
Starts:							
Single-Detached	400	337	380	440	15.8	380	-13.6
Multiples	469	247	403	520	29.0	410	-21.2
Starts - Total	869	584	783	960	22.6	790	-17.7
Average Price ($):							
Single-Detached	184,719	193,687	192,705	200,000	3.8	210,000	5.0
New Housing Price Index (% chg) (Que.)	5.0	3.1	3.1	n. a.	-	n. a.	-
Rental Market							
October Vacancy Rate (%)	1.6	1.5	1.8	2.0	-	2.2	-
Two-bedroom Average Rent (October) ($)	518	518	535	545	-	555	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	69,800	70,400	69,500	70,000	0.7	70,500	0.7
Employment Growth (%)	-0.9	0.9	-1.3	0.7	-	0.7	-
Unemployment rate (%)	8.5	8.7	8.1	8.4	-	8.4	-
Net Migration	-380	-396	-342	-325	-5.0	-300	-7.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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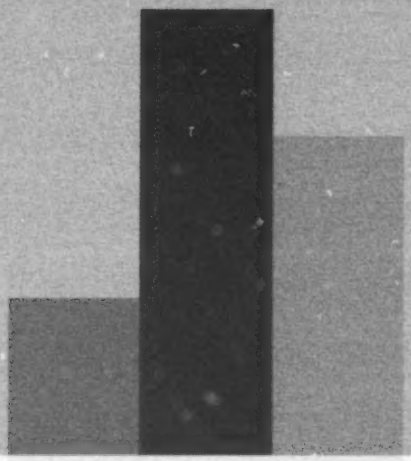

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